



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	07/02/02	Bill No:	AB 2744
Tax:	Alcoholic Beverage	Author:	Thomson , and Chan
Board Position:		Related Bills:	SB 928 (Romero)

BILL SUMMARY

This bill would increase the surtax imposed on beer, wine, sparkling cider, and distilled spirits, and would impose a surtax on sparkling wines.

ANALYSIS

Current Law

Under current law, Sections 32151, 32201, and 32220 of the Alcoholic Beverage Tax Law imposes the following taxes and surcharges on beer, wine, and distilled spirits:

	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Total</u>
Beer	\$0.04	\$0.16	\$0.20
Wine (not more than 14 percent alcohol)	\$0.01	\$0.19	\$0.20
Wine (more than 14 percent alcohol)	\$0.02	\$0.18	\$0.20
Sparkling wine	\$0.30	\$0.00	\$0.30
Hard cider	\$0.02	\$0.18	\$0.20
Distilled spirits (100 proof)	\$2.00	\$1.30	\$3.30
Distilled spirits (100+ proof)	\$4.00	\$2.60	\$6.60

The proceeds from these taxes and surcharges are deposited in the General Fund.

Proposed Law

This bill would amend Section 32220 of the Alcoholic Beverages Tax Law to provide an increase in the surtax imposed on beer, wine, sparkling cider, and distilled spirits, and would impose a surtax on sparkling wines. The proposed surtax rate would become effective July 15, 2002, at 2:01 a.m. The tax and proposed surtax rate would be as follows:

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position

	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Total</u>
Beer	\$0.04	\$0.26	\$0.30
Wine (not more than 14 percent alcohol)	\$0.01	\$0.44	\$0.45
Wine (more than 14 percent alcohol)	\$0.02	\$0.43	\$0.45
Sparkling wine	\$0.30	\$0.30	\$0.60
Hard cider	\$0.02	\$0.43	\$0.45
Distilled spirits (100 proof)	\$2.00	\$4.00	\$6.00
Distilled spirits (100+ proof)	\$4.00	\$5.60	\$9.60

This bill would also impose a floor stock tax on beer, wine, sparkling cider and distilled spirits in inventory as of July 15, 2002, at 2:01 a.m.

Background

In order to bridge the gap between revenues and expenses in the 1991-92 state budget, a surtax was added to the existing excise tax on alcoholic beverages. Assembly Bill 30 (Chapter 86, 1991) added the alcoholic beverage surtax under current Section 32220, effective July 15, 1991. Before the tax increase, excise taxes on most alcoholic beverages had remained the same since the 1950's, with the exception of an increase in the excise tax on distilled spirits in 1967.

COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the authors to provide necessary funding for health care programs in this state.
- 2. Summary of amendments.** Prior versions of this bill contained provisions outside the scope of the Board. The July 2 amendments to this bill deleted all previous provisions and added the alcoholic beverage surtax increase and floor stock tax provisions.
- 3. Amendments should be made to modify the operative date of the tax increase and the floor stock tax provisions.** The proposed operative date of the tax increase has already passed, and therefore the bill must be amended to change that date. It is suggested that the new operative date provide sufficient lead time for the Board to notify taxpayers of the provisions of this bill in order to reduce reporting errors for the floor stock tax. Most taxpayers report the alcoholic beverage tax on a monthly basis, so it is recommended that an operative date coinciding with the first day of a calendar month be used so taxpayers do not have to report multiple tax rates during the same reporting period.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position

- 4. Funds would be deposited in the General Fund.** The proposed tax increase does not change the disposition of the funds as contained in current law and therefore the revenues would be deposited into the General Fund. The bill does, however, contain legislative intent language that “revenues generated by this act will provide moneys,...for the purpose of funding health care programs in this state.”
- 5. Related legislation.** Senate Bill 928 (Romero) would impose a five-cent per drink fee on any wholesaler located within the state who distributes alcoholic beverages to retailers for consumption in the state. The fee would be based on 1.5 ounces of distilled spirits and 12 ounces of beer. As currently written, SB 928 would not impact the Board as the Department of Alcoholic Beverage Control would be responsible for the administration and collection of the fee.

COST ESTIMATE

A detailed cost estimate is pending, but changes to the tax rates have historically had a substantial impact on the Board's administrative costs. Among the costs that would be incurred are programming costs and modification of returns to reflect the new tax rates, notification of all affected taxpayers registered with the Board prior to the rate change, processing of the floor stock tax returns, and an increased workload in the return processing area due to errors on returns.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

The following chart shows the current excise tax and the current surtax on alcoholic beverages and the increased surtax proposed by this bill.

Alcoholic Beverage Rates						
Type	Excise Tax Rate	Current Surtax Rate	Current Total Rate	Proposed Surtax Rate	Proposed Total Rate	Proposed Rate Increase
Beer	\$ 0.04	\$ 0.16	\$ 0.20	\$ 0.26	\$ 0.30	\$ 0.10
Still Wine <14%	\$ 0.01	\$ 0.19	\$ 0.20	\$ 0.44	\$ 0.45	\$ 0.25
Still Wine >14% *	\$ 0.02	\$ 0.18	\$ 0.20	\$ 0.43	\$ 0.45	\$ 0.25
Champagne	\$ 0.30	\$ -	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.30
Distilled Spirits <100	\$ 2.00	\$ 1.30	\$ 3.30	\$ 4.00	\$ 6.00	\$ 2.70
Distilled Spirits >100	\$ 4.00	\$ 2.60	\$ 6.60	\$ 5.60	\$ 9.60	\$ 3.00

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position

The revenue impact from increasing the alcoholic beverages surtax and imposing a corresponding floor stock tax would be as follows:

Alcoholic Beverage Increase

Type	Increased Rate	2000-01 Gallons	Increased Revenue
(000s)			
Beer	\$ 0.10	643,124	64,312
Still Wine <14%	\$ 0.25	86,987	21,747
Still Wine >14% *	\$ 0.25	8,020	2,005
Champagne	\$ 0.30	5,340	1,602
Distilled Spirits <100	\$ 2.70	41,541	112,161
Distilled Spirits >100	\$ 3.00	161	483
Total		785,173	202,310

Floor Stock

Type	Tax Rate	2000-01 Gallons	Floor Gallons	Floor Stock Revenue
		(000s)	(000s)	(000s)
Beer	\$ 0.10	643,124	51,450	5,145
Still Wine <14%	\$ 0.25	86,987	13,048	3,262
Still Wine >14% *	\$ 0.25	8,020	1,203	301
Champagne	\$ 0.30	5,340	801	240
Distilled Spirits <100	\$ 2.70	41,541	6,231	16,824
Distilled Spirits >100	\$ 3.00	161	6	19
Total			72,739	25,791

* Includes sparkling hard cider.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position

The total increase in alcoholic beverage surtax revenues would be \$202.3 million annually. If all of these taxes are passed on to the ultimate consumer, there would be an increase in state and local sales and use tax revenue as follows:

	<u>Increased Revenue</u>
State (5 %)	\$ 10.1 million
Local (2.25 %)	4.6 million
Transit (0.67 %)	<u>1.3 million</u>
Total	<u>\$ 16.0 million</u>

Revenue Summary

Increasing the alcoholic beverage surtax would result in the following revenue increase:

Alcoholic Beverage Surtax Increase	\$ 202.3 million
Floor Stock Tax	\$ 25.8 million
State Sales and Use Tax (5%)	<u>\$ 10.1 million</u>
Total State	<u>\$ 238.2 million</u>
Local Sales and Use Tax (2.25%)	\$ 4.6 million
Transit Tax (0.67%)	<u>\$ 1.3 million</u>
TOTAL	<u>\$ 244.1 million</u>

Analysis prepared by:	Bradley Miller	916-445-6662	07/22/02
Revenue estimate by:	Dave Hayes	916-445-0840	
Contact:	Margaret S. Shedd	916-322-2376	

ls 2744-1bm

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position